Impact of Covid-19 on FMCG

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How FMCG Companies Fare in the Current Market

FMCG, though considered a defensive sector, is not immune to the impacts caused by a pandemic. The current scenario has caused a rise in unemployment (as per CMIE data, currently is at 23.4%, vs 8% mid March), which will lead to lower and skewed demand scenario. Govt. expenditure will also be curtailed as more money is being pumped into relief measures and thus, rating agencies have lowered our growth potential to anywhere between 2% to 3% for the current fiscal. With a good part of the quarter being lost during lockdown ,we expect numbers to reverse positively by the end of the fiscal on account of lower base but the economic revival is expected to take anywhere upto 2HFY22.

The same has been reflected in the markets and apart from the overall downgrade in earnings and valuation, if we are to differentiate sector wise, most sectors have corrected by anywhere between 25% to 40%. The broader consumer goods sector has corrected by only 13% MoM (March 2020), supported by FMCG sector which has corrected by only around 7% in the same period. This has broadly been account of it being a defensive sector. Additionally, the larger FMCG firms are financially strong (zero debt, surplus cash) and hence has the strength to weather the current storm. Mostly, the impact on different stocks may vary on account of financial strength, portfolio mix, and geographical reach. Some of the main listed firms expected to see out the current phase least impacted negatively include HUL, Britannia, Nestle and Colgate Palmolive (India) Ltd. as they are household names with good financials, reach, and with it being part of the consumer staples and household sector, we expect these stocks to perform better in the short to medium term.

How long will it last:

The rate of increase in Covid 19 cases in USA and Europe indicate that these regions have not yet reached the peak and hence the flattening of the curve is still a few weeks away at least. Our early curfew should aid in lifting of lock down faster than the global peers but in a stepwise manner. The longer the lockdown, the higher will be the impact on the economy and the various sectors. Thus, in the interim, to sustain employment and continue business during the hardships, the GoI is expected to come out with a slew of measures to support various sectors and sections of the society.

Govt. measures:

The first of these steps were taken recently when the Govt. announced a package to the tune of Rs. 1.73 lakh crore, to ally stress in the interim for the most vulnerable and also infuse consumption in the lower essential products segment during this period. We expect the GoI to come out with more sector specific packages in the coming weeks as lockdown is lifted in a phased manner.

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FMCG firms with lesser negative impact in the current phase:

The pandemic has raised demand and requirement for particularly 3 categories.

- Branded food
- Home care products
- Health supplements

While logistical and fright issues will persist, Managements of FMCG companies indicate 70% of the regular sales in this period. Companies with strong balance sheet, network and diversified products within the above mentioned categories will stand to gain the most in the short, medium. Additionally, post the current crisis, we expect financial headwinds for the regional FMCG players which, as has been in the past resulted in consolidation with the strong market leaders in the industry. This will further aid in strengthening the market share, brand positioning and revenue growth for the leading players.

Hindustan Unilever Ltd.

- Diversified portfolio with high focus on household and homecare products (~60% revenue)
- Good distribution reach
- Strong balance sheet and good cash position
- Good brand recall

Britannia Industries Ltd.

- 90% revenue from the consumer staples segment
- Low to Mid value pricing for the products which makes it attractive from the point of view of consumers in the current scenario
- Good distribution network
- Valuation upgrades in recent items was based on the up scaling of its product portfolio, which is now expected to take longer on account of the economic distress.

Nestle India Ltd.

- Being classified under the essential commodities, will benefit in the current scenario as volumes will continue to be strong.
- We expect packaged foods to continue to be the higher demand in the coming months even post the lockdown
- Dairy inflation a marginal concern as price uptick possibilities remain muted in the current scenario.

Colgate - Palmolive (India) Ltd.

- Market leader in the oral healthcare category.
- Market share gainer particularly in the Ayurveda space.
- Rural demand to slowdown in the coming quarters but valuations attractive and have corrected on those accounts in recent times.

Bata India Ltd.

- Although classified under the discretionary segment, the products come under the essential category in the medium term.
- Strong reach and diversified portfolio of products within the men's, women's and kids space.
- Good brand recall and strong management heritage
- Attractive valuations for a market leader in the space.

FMCG firms with higher negative impact in the current phase

- Companies with higher focus on discretionary products will have a negative impact in the current period. With lockdown to be lifted only in a phased manner, shutdown of manufacture of discretionary and non essential products and ban on trade, Q1 and Q2 of FY21 will see significant impact the coming quarter in he top and bottom line.

Dabur India Ltd.

- Nearly 45% of the revenues to come under significant pressure as they belong to the discretionary (personal care) and summer portfolio
- Company has been aggressively pushing for the sale of higher value products which is expected to see slower growth in the coming quarters.
- We expect rural performance to be dull in the coming quarters.
- Overseas revenues contribute nearly 27% of the consolidated revenues.

Emami Ltd.

- Nearly 40% revenue from the personal care and summer portfolio space.
- Summer portfolio a significant contributor to the topline will take a hit in the current fiscal.
- 12% international revenues.
- Wholesale sales to be impacted in the current scenario.

Marico Ltd.

- International business was performing better prior to lockdown
- Nearly 80% revenues from discretionary and summer portfolio.
- Stiff competition from the competitors in the space to impact margins.

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